

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001

NOTE 12 – RESERVES, DESIGNATIONS, AND CHANGES IN EQUITY

Reserves and Designations

King County records two general types of reserves. One type indicates that a portion of the fund balance is legally segregated for a specific future use and the second type of reserve indicates that a portion of the fund balance is not available for appropriation. Designated fund balances represent tentative plans (including those plans prescribed by local ordinance) for future use of financial resources.

Following is a list of all reserves and designations used by King County and a description of each:

Reserved Fund Balances

	TOTAL (MEMO ONLY)	GENERAL FUND	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	TRUST & AGENCY
Reserved for:						
Inventory	\$ 2,152,606	\$ 79,031	\$ 2,073,575	\$	\$	\$
Prepayments	205,404	72,137			133,267	
Encumbrances	56,871,895	5,425,929	21,949,667		29,496,299	
Advances to other funds	300,000	300,000				
Crime victim compensation program	901,887	901,887				
Drug enforcement program	293,312	293,312				
Antiprofitteering program	395,416	395,416				
Dispute resolution	32,210	32,210				
<i>Pro se</i> facilitator	13,844	13,844				
Inmate welfare	1,713,595	1,713,595				
Laptop replacement	668,559	668,559				
Criminal justice	2,661,862	2,661,862				
Managed care risk pool	7,819,070		7,819,070			
Arts and cultural development endowment	2,418,515		2,418,515			
PFD stadium bond debt service	12,491,773			12,491,773		
PFD stadium bond debt service - escrow	4,694,097			4,694,097		
Reserved for assets held in trust for pool / individual investment account participants	<u>2,396,173,120</u>					<u>2,396,173,120</u>
Total reserved fund balances	<u>\$2,489,807,165</u>	<u>\$12,557,782</u>	<u>\$34,260,827</u>	<u>\$ 17,185,870</u>	<u>\$ 29,629,566</u>	<u>\$2,396,173,120</u>

Reserved for inventory – This account is used to segregate a portion of fund balance in the amount of the inventory of supplies carried as an asset; it represents resources that are not available and spendable for the fund's current operations.

Reserved for prepayments – This account is used to segregate a portion of fund balance equal to the asset prepayments; it does not represent available, spendable resources for the fund's current operations.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001**NOTE 12 - CONTINUED**

Reserved for encumbrances – This account is used for commitments made for goods or services before year-end that have not been delivered or completed as of year-end. The budget for these commitments will be reestablished in the new year without being reappropriated.

Reserved for advances to other funds – This account is used to segregate a portion of fund balance for advances to other funds, the noncurrent portion of interfund loans receivable, to indicate that they do not constitute available financial resources and, therefore, are not available for appropriation.

Reserved for Crime Victim Compensation Program – This account is used to segregate a portion of fund balance to indicate that resources are legally restricted to the Crime Victim Compensation Program and are not spendable resources for other expenditures.

Reserved for drug enforcement program – This account is used to segregate a portion of fund balance to indicate that resources are legally restricted solely for the purposes of enhancing enforcement of the Uniform Controlled Substances Act, *Revised Code of Washington (RCW)*, Chapter 69.50, or other laws regulating controlled substances, including training, equipment, and operational expenses.

Reserved for antiprofitteering program – This account is used to segregate a portion of fund balance to indicate that resources are legally restricted solely for the purposes of the investigation and prosecution of any offense included in the definition of criminal profiteering set forth in *RCW* 9A.82.

Reserved for dispute resolution centers – This account is used to segregate a portion of fund balance to indicate that resources are legally restricted solely for the purpose of funding dispute resolution centers.

Reserved for *pro se* facilitators – This account is used to segregate a portion of fund balance to indicate that resources are legally restricted solely for the purpose of funding a courthouse facilitator program to provide basic services to *pro se* litigants in family law cases.

Reserved for inmate welfare – This account is used to segregate a portion of fund balance to indicate that resources are legally restricted solely for the purpose of the welfare of inmates held by the Department of Adult and Juvenile Detention.

Reserved for laptop replacement – This account is used to segregate a portion of fund balance to indicate that resources are legally restricted solely for the purpose of replacing laptop computers used by police officers.

Reserved for criminal justice – This account is used to segregate a portion of fund balance to indicate that resources are legally restricted solely for criminal justice purposes.

Reserved for managed care risk pool – Seattle-King County Department of Public Health is affiliated with Blue Cross/Carenet and the Community Health Plan of Washington (CHPW) in order to provide care to approximately 8,000 Healthy Options Managed Medicaid enrollees. For CHPW enrollees, the Health Department shares a portion of the risk for the continuum of

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001**

NOTE 12 - CONTINUED

care to those individuals and families. In addition to the risk of providing primary care within a fixed capitation (a fixed payment per enrollee per month, independent of the primary care utilization), the Health Department is also at risk for provision of specialty services and hospital care. Specifically, the Health Department is responsible for a portion of losses not covered by the specialty and hospital pools held by the plans or by reinsurance for extraordinary costs. In order to plan for those potential losses, maintenance of a risk reserve pool is required.

Reserved for arts and cultural development endowment – This account is being used, pending the establishment of a Permanent Fund, to segregate the Hotel/Motel tax revenues distributed to the Arts and Cultural Development Fund pursuant to *RCW 67.28.180.3(e)*, for the purpose of establishing an endowment.

Reserved for PFD Stadium bond debt service – This account is used to segregate the revenues collected by the County that are earmarked for future debt service payments on the 1997A-1, 1997B, and 1997D tax exempt Baseball Stadium bond issues.

Reserved for PFD Stadium bond debt service – escrow – This account is used to segregate the revenues collected by the County that are earmarked for future debt service payments on the 1997A-2 and 1997C taxable Baseball Stadium bond issues.

Reserved for assets held in trust for pool / individual investment account participants – This account is used to segregate Investment Trust Fund net assets held for legally separate entities such as special districts and public authorities other than component units.

Designated Fund Balances

	TOTAL (MEMO ONLY)	GENERAL FUND	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS
Designated for:					
Equipment replacement	\$ 4,619,112	\$	\$ 4,619,112	\$	\$
Capital projects	2,813,692	2,431,314	382,378		
FEMA match	97,607		97,607		
Reappropriation	12,574,676	2,275,848	10,298,828		
Net unrealized gains	7,796,550	3,566,200	1,713,847	283,024	2,233,479
Contingencies	15,000,000	15,000,000			
Children and family services program	130,046	130,046			
Total designated fund balances	<u>\$ 43,031,683</u>	<u>\$ 23,403,408</u>	<u>\$ 17,111,772</u>	<u>\$ 283,024</u>	<u>\$ 2,233,479</u>

Designated for equipment replacement – This account is used to indicate that a portion of fund balance has been earmarked for the replacement of equipment.

Designated for capital projects – This account is used to identify a portion of fund balance in General and Special Revenue Funds equal to the budget for capital projects not expended

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001**

NOTE 12 - CONTINUED

and expected to be reappropriated for the coming year. The projects may be decreased, increased, and changed in scope by the County Council in their budget deliberations.

Designated for FEMA match – This account is used to identify a portion of fund balance in the Flood Control Zone Districts Fund that has been designated for future use as a local match for federal and state grants in the event of a federally-declared flood disaster.

Designated for reappropriation – This account is used at year-end for lapsed appropriations for which special requests have been made to obtain reappropriation in the coming year.

Designated for net unrealized gains – This account is used to segregate the portion of fund balance representing unrealized gains and losses on investment holdings. GASB Statement No. 31 now requires governments to report investments at fair values and to charge investment income for the change in fair value of investments at the end of the year.

Designated for contingencies – This account is used to segregate a portion of fund balance to indicate that resources have been earmarked by County ordinance for the following:
(1) maintenance of essential County services in the event that General Fund revenue collections in a given fiscal year are less than 97 percent of adopted estimated revenues;
(2) payment of legal settlements relating to the collection of past General Fund revenues;
(3) catastrophic losses in excess of the Insurance Fund reserve and all other fund balances;
and (4) requests for priority capital maintenance projects if and when the contingencies reserve exceeds \$15 million.

Designated for Children and Family Services Programs – This account is used to segregate a portion of fund balance to indicate that resources have been earmarked by County ordinance to provide children and family services to the residents of King County.

Reserved Retained Earnings

Public Transportation Enterprise – Sales tax subsidies are initially deposited to the Sales Tax Revenues Receiving Fund. One-fourth of the sales tax subsidy is designated by bond resolution for capital projects and debt service. Funds required for debt service are distributed from the Receiving Fund to the Bond Fund and the remainder is distributed to the Construction Fund. Amounts representing cumulative sales tax revenues not yet used for capital projects, less required debt service reserves, are reserved for capital projects. The balance of the reserve at December 31, 2001, is \$48,161,173.

Water Quality Enterprise – The following reserves have been established pursuant to bond resolutions:

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001**

NOTE 12 - CONTINUED

Required Balance, bond reserve account	\$ 61,587,198
Term Bond Reserve Account	13,775,534
Contingency Reserve Account	2,000,000
Operating Reserve Account	4,139,000
Betterment Reserve Account	5,900,811
Debt Service Account (parity bonds only)	44,747,341
Less current Principal and Interest Payable (parity and parity lien bonds)	<u>(46,186,317)</u>
Reserved Retained Earnings	<u><u>\$ 85,963,567</u></u>

Reserved for Harborview Medical Center (HMC) capital construction – This account is used to segregate the retained earnings of HMC's Construction Fund which is restricted to improvements and additions to HMC buildings and equipment, including construction of the new trauma center amounting to \$32,431,016 at June 30, 2001.

Reserved for HMC special purpose – This account is used to segregate retained earnings of HMC's Special Purpose Funds which consist of restricted donations, gifts and bequests received from outside sources intended for specific purposes amounting to \$23,964,157 at June 30, 2001.

Management Plans for Internal Service Fund Retained Earnings

The following Internal Service Funds have retained earnings that have been earmarked by County management for a specific future use as of December 31, 2001:

Information and Telecommunication Services Fund – Data Processing Sub-fund – \$1,015,566 has been earmarked by management for the replacement of electronic data processing equipment.

Information and Telecommunications Services Fund – Telecommunications Sub-fund – \$890,000 has been earmarked by management for the replacement of telecommunications equipment.

Insurance Fund – \$14,747,545 has been earmarked for catastrophic losses. The catastrophic loss reserve will be used to respond to large, non-recurring losses exceeding \$1 million per incident.

Motor Pool Equipment Rental Fund – \$8,358,596 has been earmarked by management for the replacement of rental equipment.

Printing/Graphic Arts Services Fund – \$100,000 has been earmarked by management for the replacement of printing equipment.

Public Works Equipment Rental Fund – \$8,923,032 has been earmarked by management for the replacement of rental equipment.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001**

NOTE 12 - CONTINUED

Transit Non-Revenue Vehicle (NRV) Equipment Rental Fund – \$5,417,441 has been earmarked by management for the replacement of rental equipment.

Wastewater Equipment Rental Fund – \$2,865,286 has been earmarked by management for the replacement of rental equipment.

Changes in Equity**Proprietary Fund Changes in Contributions**

The following tables display the changes during 2001 in the balances in the Contributions account in the Enterprise Funds. There were no changes in Contributions in the Internal Service Funds.

	ENTERPRISE FUNDS CONTRIBUTIONS			
	BALANCE 01/01/01	INCREASES	DECREASES	BALANCE 12/31/01
<u>King County International Airport</u>				
Contributions from other governments	\$ 25,440,620	\$	\$	\$ 25,440,620
Contributions from governmental unit	4,417,682			4,417,682
Contributions - other	74,280			74,280
Total King County International Airport	<u>29,932,582</u>	<u>-0-</u>	<u>-0-</u>	<u>29,932,582</u>
<u>Public Transportation</u>				
Contributions from other governments	<u>444,116,107</u>	<u>-0-</u>	<u>(34,013,163)</u>	<u>410,102,944</u>
<u>Radio Communications Services</u>				
Contributions from other governments	<u>19,095,763</u>	<u>-0-</u>	<u>-0-</u>	<u>19,095,763</u>
<u>Solid Waste</u>				
Contributions from other governments	14,895,250			14,895,250
Contributions from governmental unit	2,531,873			2,531,873
Contributions - other	9,946			9,946
Total Solid Waste	<u>17,437,069</u>	<u>-0-</u>	<u>-0-</u>	<u>17,437,069</u>
<u>Stadium</u>				
Contributions from other governments	956,227			956,227
Contributions from governmental unit	122,355,620			122,355,620
Contributions - other	241,128			241,128
Total Stadium	<u>123,552,975</u>	<u>-0-</u>	<u>-0-</u>	<u>123,552,975</u>
<u>Water Quality</u>				
Contributions from other governments	293,829,005		(21,838,066)	271,990,939
Contribution from governmental unit	407,901			407,901
Total Water Quality	<u>294,236,906</u>	<u>-0-</u>	<u>(21,838,066)</u>	<u>272,398,840</u>
TOTAL ENTERPRISE CONTRIBUTIONS	<u>\$ 928,371,402</u>	<u>\$ -0-</u>	<u>\$ (55,851,229)</u>	<u>\$ 872,520,173</u>

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001**

NOTE 12 - CONTINUED

Public Transportation Contribution Activity – The balance was reduced by \$34,013,163 of amortization of grant-funded assets.

Water Quality Contribution Activity – The balance was reduced by \$21,838,066 of amortization of grant-funded assets.

Restatements of Beginning Balances**General Fund**

In 1999 expenditures related to some manual warrants issued by the Department of Finance Accounts Payable section were not recorded in the accounting system. This error was discovered in 2001 and the beginning fund balance has been restated. The appropriation units impacted by these errors had sufficient budget balance available in 1999 to cover these expenditures had the expenditures been charged against the appropriation in 1999.

	General Fund
General Fund	
Fund Balance – December 31, 2000	\$ 80,357,477
Understatement of 1999 Expenditures	
Superior Court	(205)
District Court	(6,000)
Adult and Juvenile Detention	(537)
Public Defense	<u>(914,077)</u>
Fund Balance – January 1, 2001 (RESTATED)	<u>\$ 79,436,658</u>

Internal Service Fund/Capital Project Fund

The prior period adjustment of \$178,591 is to correct an error in 2000 where contract expenditures budgeted under the Financial Management Services internal service fund were incorrectly charged to the Technology 1997 Bond capital projects fund. This adjustment results in the following restatement of beginning fund balance and retained earnings:

Fund/Fund group	Fund Balance/ Retained Earnings Dec. 31, 2000	Prior Period Adjustment	Fund Balance/ Retained Earnings Jan. 1, 2001
Financial Management Services Fund	\$ (19,795)	\$ (178,591)	\$ (198,386)
Internal Service fund group	34,786,484	(178,591)	34,607,893
Technology 1997 CIP Bond Fund	3,330,404	178,591	3,508,995
CIP fund group	138,644,767	178,591	138,823,358

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001**

NOTE 12 - CONTINUEDEnterprise Funds

In 2000 the capitalization of certain expenditures in the Radio Communications Services Enterprise Fund were duplicated overstating Work in Progress and Retained earnings and understating Operating expenses by \$506,952. In 2001 the Work in Progress balance has been restated to the correct balance resulting in the following restatement of beginning retained earnings:

	Enterprise Funds	Radio Communications Services
Retained earnings (deficit) - December 31, 2000	\$ 665,411,474	\$ (1,467,551)
2000 Capitalization duplication	<u>(506,952)</u>	<u>(506,952)</u>
Retained earnings (deficit) – January 1, 2001 (RESTATED)	<u>\$ 664,904,522</u>	<u>\$ (1,974,503)</u>

Component Unit – Changes in Contributions

Harborview Medical Center – A contribution is reported for the net interest paid by the County on HMC construction bonds that is recognized in HMC's financial statements as capitalized interest. The life-to-date amount at June 30, 2001, is \$8,080,486 (see below, "Component Unit – Restatement of Beginning Balances," for changes in the contribution amount due to the prior year adjustment).

Washington State Major League Baseball Stadium Public Facilities District – The balance of contributions was reduced by \$12,219,026 for amortization of contribution funded assets and \$659,947 for refund of contribution to Seattle Mariners.

Component Unit – Restatement of Beginning Balances

King County reformats the independently prepared and audited financial statements of Harborview Medical Center (HMC) for presentation as a component unit in the King County Comprehensive Annual Financial Report (CAFR). In 2000 errors were made in the CAFR as described in the following table.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001

NOTE 12 - CONTINUED

STATEMENT OF REVENUES AND EXPENSES

	COMPONENT UNIT		COMPONENT UNIT
	HMC 2000 CAFR	Required Revisions to 2000 CAFR	HMC 2000 CAFR (Restated)*
TOTAL OPERATING REVENUES	\$ 339,052,798	\$	\$ 339,052,798
TOTAL OPERATING EXPENSES	333,650,886		333,650,886
OPERATING INCOME (LOSS)	5,401,912		5,401,912
NONOPERATING REVENUES			
Interest earnings	4,247,223	(649,871)	3,597,352
Restricted donations and interagency transfers	-	7,541,194	7,541,194
Miscellaneous	(751,783)		(751,783)
TOTAL NONOPERATING REVENUES	3,495,440	6,891,323	10,386,763
NONOPERATING EXPENSES			
Interest	441,918		441,918
Miscellaneous	5,382,333	(659,308)	4,723,025
TOTAL NONOPERATING EXPENSES	5,824,251	(659,308)	5,164,943
NET INCOME	3,073,101	7,550,631	10,623,732
FUND EQUITY			
Retained earnings, Beginning of Fiscal Year	327,924,700	(8,689,923)	319,234,777
Retained earnings, End of Fiscal Year	330,997,801	(1,139,292)	329,858,509
Contributions, End of Fiscal Year	7,541,194	1,139,292	8,680,486
FUND EQUITY - END OF FISCAL YEAR	\$ 338,538,995	\$ -0-	\$ 338,538,995

* This presentation is consistent with HMC's independently prepared and audited June 30, 2000, financial statements.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001**

NOTE 12 - CONTINUED**BALANCE SHEET**

	COMPONENT UNIT		COMPONENT UNIT
	HMC 2000 CAFR	Required Revisions to 2000 CAFR	HMC 2000 CAFR (Restated)*
TOTAL ASSETS AND OTHER DEBITS	<u>\$ 448,193,628</u>	<u>\$ -0-</u>	<u>\$ 448,193,628</u>
LIABILITIES, FUND EQUITY, AND OTHER CREDITS			
Total liabilities	<u>109,654,633</u>		<u>109,654,633</u>
Fund equity and other credits			
Contributions	<u>7,541,194</u>	<u>1,139,292</u>	<u>8,680,486</u>
Retained earnings			
Reserved	<u>29,728,685</u>		<u>29,728,685</u>
Unreserved	<u>301,269,116</u>	<u>(1,139,292)</u>	<u>300,129,824</u>
Total retained earning/fund balances	<u>330,997,801</u>		<u>329,858,509</u>
Total fund equity and other credits	<u>338,538,995</u>		<u>338,538,995</u>
TOTAL LIABILITIES, FUND EQUITY, AND OTHER CREDITS	<u>\$ 448,193,628</u>	<u>\$ -0-</u>	<u>\$ 448,193,628</u>

STATEMENT OF CASH FLOWS

CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from customers/users	<u>\$ 332,211,621</u>	<u>\$ 7,541,194</u>	<u>\$ 339,752,815</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>39,770,318</u>	<u>7,541,194</u>	<u>47,311,512</u>
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition of capital assets	<u>(24,679,188)</u>	<u>(7,541,194)</u>	<u>(32,220,382)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(26,046,577)</u>	<u>(7,541,194)</u>	<u>(33,587,771)</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>3,239,007</u>	<u>-0-</u>	<u>3,239,007</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>16,962,748</u>		<u>16,962,748</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF FISCAL YEAR	<u>83,153,769</u>		<u>83,153,769</u>
CASH AND CASH EQUIVALENTS - END OF FISCAL YEAR	<u>\$ 100,116,517</u>	<u>\$ -0-</u>	<u>\$ 100,116,517</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	<u>\$ 5,401,912</u>	<u>\$</u>	<u>\$ 5,401,912</u>
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Restricted donations in Special Purpose funds	<u>5,382,333</u>	<u>7,541,194</u>	<u>12,923,527</u>
TOTAL ADJUSTMENTS	<u>34,368,406</u>	<u>7,541,194</u>	<u>41,909,600</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 39,770,318</u>	<u>\$ 7,541,194</u>	<u>\$ 47,311,512</u>

* This presentation is consistent with HMC's independently prepared and audited June 30, 2000, financial statements.